The morality of illicit markets: "Greasing the wheels" or "greasing the palm"?

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ABSTRACT
When and why are illicit markets regarded as morally legitimate? We address this question in the context of Soviet and post-Soviet Russia, where the moral legitimacy of commerce has waned since the collapse of the Soviet Union. We do so by analyzing the continued resiliency and robustness of illicit markets and their moral perception in Soviet and post-Soviet Russia, where *de facto* private property rights have remained insecure in spite of *de jure* political and economic reform. Given the continuity of illicit markets across both periods, we argue twofold. First, what has remained constant in the moral nature of illicit markets across both periods has been the entrepreneurial drive to realize gains from trade by circumventing and evading a predatory state. Secondly, given this constancy in the *form* of illicit market exchange, we contend that changing moral attitudes toward commerce have resulted from the changing *manifestation* of illicit market exchange, in response to the predatory nature of the state. In both the Soviet and post-Soviet period, the state has remained a means to create monopoly privileges. However, whereas in the Soviet period, illicit markets served as a means to "grease the wheels" of commerce, economic transition in post-Soviet Russia corrupted the moral legitimacy of a market economy by transforming illicit markets into a means to "grease the palms" of government officials in the name of "privatization."

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1. Introduction

Illicit markets are ubiquitous and often regarded as morally reprehensible. In post-Soviet Russia illicit markets were represented by a palette of diverse activities, ranging from a sale of basic household goods like toilet paper, to the sale of foreign cars, drugs, and services like prostitution. Activity of illicit markets did not stop there, however, and at times became quite repugnant. For instance, the market for trafficking of nuclear materials emerged in the aftermath of the Soviet Union's collapse (Shelley, 1995; Council on Foreign Relations, 2006). Among notorious cases, German authorities reported several cases of smuggled plutonium-239 and enriched uranium-235 from Russia in 1994 alone (Miller, 1994; Eggleston, 1996). Several other countries similarly saw a wave of nuclear materials supplies, raising a considerable concern as to the security from a nuclear threat and terrorism. But if trafficking of nuclear materials wasn't enough, Russia also faced a development of the contract killings market (Efron, 1993; Braithwaite, 1995). According to Oxford Analytica (May 26, 1994) contract killings increased from 100 in 1992 to over 250 in 1993, with the trend moving upward. The targets of the contract killings were journalists, politicians, public administrators, and businessmen (Krechetnikov, 2009; Khokhlov, 2016; Zhukov, 2021). The threat to businessmen and bank managers grew notoriously high, to the extent that the Association of Russian Banks issued a proclamation (Kommersant, 1993) to President Yeltsin urging the President to stop the wave of bank manager assassinations and to enforce the order.

Indeed, we hold that attempts to sell nuclear materials for the possible construction of dirty bombs and other nuclear explosives, and contract killings of people are obviously morally repugnant and impermissible. Moreover, operating in an institutional context within which individuals are constrained by a dysfunctional or otherwise predatory state opens a Pandora box

of illicit markets, the manifestation of which may be regarded as immoral. However, to the extent that illicit markets are a *systemic* function of property rights over goods and services that are poorly defined and poorly enforced, we should not throw the moral baby out with the immoral bathwater. Just as opening Pandora's box does not rule the possibility of hope, illicit markets do not rule out the possibility of moral behavior that "greases the wheels" of illicit markets, the absence of which would rule out the scope for entrepreneurship that is not only productive, but moral as well, generating an outcome that is Pareto-improving and morally improving than otherwise would be. As Enrico Colombatto states, from "this viewpoint 'greasing the wheels' would then become [morally] acceptable, if property rights are assigned inefficiently to begin with, and their trading is otherwise impossible—say, because it is forbidden by the law and monitoring is effective" (Colombatto, 2003: 367). However, this point does not rule out the fact that illicit markets can also serve as a means to "grease the palms" of regulators, in which case illicit markets may be perceived as immoral. Therefore, the functional significance of illicit markets and their perceived moral status depends upon the institutional context of whether illicit markets *evade* a predatory state or *enable* a predatory state.

This moral complexity inherent to illicit markets raises the following question: when, and why, are illicit markets regarded as morally legitimate? Indeed, illicit market may reduce the choice set of moral behavior. However, we argue that, within such constraints, we cannot understand the resiliency and robustness of illicit markets without understanding their moral legitimacy, due to their ability to provide for human betterment and social cooperation in a dysfunctional and predatory environment. We illustrate the morality of illicit markets with cases of illicit markets in Soviet and post-Soviet Russia. In both cases illicit markets often allowed for the improvement in population's living conditions. Russia in "the wild 90s" was characterized by

increased violence due to activities of organized crime groups. Nevertheless, illicit markets also proved to be robust and resilient in alleviating needs of the Russians throughout both periods, particular in response to the unintended consequences of increasing violence, corruption, and racketeering that resulted from the incomplete transition to private property and freedom of contract, and continued predation of local and regional bureaucrats. The hampered establishment of a protective and productive state (Buchanan, 2000) incentivized firms to go underground and to resort to the protection of organized crime groups that substituted these functions of the state. If anything, to the extent that a dysfunctional or otherwise predatory state becomes a racket (Tilly 1985), and that black-market dealings in drugs, prostitution, and weapons are regarded as immoral, then the emergence of organized crime should be regarded as moral in its effect of monopolizing, raising the price, and restricting the output of such illicit and immoral activity (Buchanan 1973). Our point, however, is to explain the *perceived* morality or immorality of illicit markets based on the *de facto* operation of the economic system in both Soviet Russia and post-Soviet Russia.

This paper proceeds as follows. In Section 2, we develop our theoretical framework for analyzing illicit activity in support of the morality of illicit markets. This framework is based on the research program of analytical anarchism that aims to study endogenous rule formation (Boettke, 2011; Boettke and Candela, 2021a). More importantly for our purposes here, application of analytical anarchism to cases of Soviet and post-Soviet Russia not only helps us to understand the positive nature of governance in ever-present illicit markets in the context of a predatory state (Grossman, 1990; Boettke et. al, 2004). Most importantly, it aids our effort to disentangle the moral and immoral characteristics of illicit markets. In a context in which no single governing authority has a monopoly on the exercise of force, analytical anarchism attempts to understand how actors unintendedly develop rules in their self-interest, capable of coordinating disparate ends and

reconciling conflicting interests, while minimizing a resort to violence. The framework is especially apt for analysis of illicit market operations, which emerge unintendedly in response to state action. Though illicit markets may be based on state-sanctioned racketeering, utilized by government actors as a means to monetize their control rights over scarce goods and services, this implies, ex-ante, neither a deliberate outcome of socialism, nor an inherent immorality of the ends of socialism (see Roberts 1969, 1971; Anderson and Boettke 1997). Rather, in the case of the Soviet economy, the failure of the government to utilize its monopoly on force for centrally planning unintendedly created the conditions for illicit markets, upon which the daily survival of ordinary Soviet citizens and the political rents of Soviet bureaucrats both depended. Therefore, the immoral nature of illicit markets in the Soviet Union and post-Soviet Russia is based on the fact that government officials used the rhetoric of central planning to justify the monetization of monopoly privileges. However, where participants could not rely on state authorities for protection of private property and enforcement of contracts, the morality in illicit markets is driven by non-state actors, who develop mechanisms for negotiating conflicts and minimizing the returns to exercising violence in the allocation of scarce goods and services.

In Section 3, we explain how the extent and moral nature of illicit markets are based not only on the legally permitted uses of private property, but also the *de facto* purposes for which illicit markets were used. In both instances of Russian contemporary history analyzed in Section 3.1 and 3.2, the institutional environment disfavored legal entrepreneurial market activity free of arbitrary discretion. The Soviet regime legally eliminated most forms of *de jure* private property and private entrepreneurship, substituting production and distribution of goods for centrally planning (Boettke, 1990, 1993). The shortage economy that ensued (Levy, 1990; Shleifer and Vishny, 1992), and the illicit markets that developed not only served to monetize the discretion of

government officials as *de facto* property rights in the in distribution and production of goods and services. In the post-Soviet context, the transition and necessary political compromises (Shleifer et. al., 1993) failed to open economy and to alleviate regulations. Contributing to the emergence of regulatory state was the intent by bureaucrats to utilize regulation for private gain. Resulting low revenue and state's inability to provide protection of private property and enforcement of contracts reinforced entrepreneurs' drive to operate outside the legal realm. Thus, the immoral nature of illicit markets resides in the *de facto* exercise of political discretion to extract rents from individuals by force.

Therefore, the morality of illicit markets can be found in "greasing the wheels" of the socialist economy for the daily survival of ordinary citizens, and in the post-Soviet context, substituting the state's responsibility to protect private property and enforce contracts (Colombatto, 2003). Moreover, the resilient robustness of morality in illicit markets explains its continuation from the Soviet to the post-Soviet context. The failure to fully transition to an institutional within the rule of law is secure explains why entrepreneurial profit opportunities arose in the context of illicit markets. To the extent that illicit markets arise because of poorly defined and poorly enforced private property rights, and their ill-defined nature results from the intent of political actors to extract rents via arbitrary enforcement of property rights, such activity can be regarded as immoral. However, within such a context, the ill-defined nature of property rights also create profit opportunities for moral and productive entrepreneurship, which is otherwise unintended and undesirable among corrupt political actors.

In Section 4, we illustrate how the moral perceptions and attitudes of illicit markets are affected by nature of their experienced interaction in illicit markets. According to James Buchanan (1997), the receptiveness that individuals have toward markets depends upon the underlying "tacit

presuppositions" that inform their cultural and moral attitudes, and how such cultural and moral attitudes, in turn, affect whether individuals perceive market exchange to be positive-sum or negative sum in nature (see also Pejovich 2003). We build on this framework to interpret recent surveys of various attitudes toward markets in the Russian context. Boycok and Shiller (2016) have reconfirmed the conclusion supported by data from Shiller et. al (1990), illustrating that Muscovites were not essentially different from New Yorkers in their attitudes towards free markets, supporting the conclusion that the underlying tacit presuppositions of Russians were not antithetical to economic transition toward the market. However, more recent evidence by the Levada Center (2021) has found that favorable attitudes toward markets has dwindled among Russians, with greater receptiveness toward central planning and income redistribution.

While seemingly contradictory conclusions when analyzed separately, taken together, such evidence illustrates opposite sides that are supportive of our underlying thesis. To the extent that Russians expressed greater receptivity of economic transition to the market in the early 1990s, this is illustrative of the *perceived* morality of illicit markets in the Soviet Union, deemed illegal, but regarded as a legitimate escape from the dysfunction and corruption of the official, centrally planned economy that was marked by pervasive shortages. However, since the collapse of central planning, the ordinary Russian's experience with the official market economy has become associated with systemic corruption, one that identifies privatization with legal competition for monopoly privileges, such as was the case with the infamous Loans for Shares program.

Our argument has particular relevance for understanding not only illicit markets in Soviet Russia and post-Soviet Russia. It also pertains to how illicit markets can affect an individual's perception of a market economy and when illicit markets may facilitate a culture of rent-seeking during economic transition (see Choi and Storr 2019; Storr and Choi, 2019). The resilient

robustness and moral nature of illicit markets, across both contexts, can be explained not by a shift in moral attitudes against voluntary exchange itself. Rather, the resilient robustness and morality of illicit markets has continued due to a shift in the manifestation of the predatory state. But whereas, in the Soviet period, the state became a means to create monopoly privileges in the name of socialism, economic transition in post-Soviet Russia corrupted the moral legitimacy of a market economy, whereby the state continued to be a means of creating monopoly privileges, but in the name of "privatization" toward a market economy. Therefore, what has remained constant in the moral nature of illicit markets across both periods has been the entrepreneurial drive to realize gains from trade by circumventing and evading further predation in the form of "regulation" by the state. Section 5 concludes.

2. Resilient Robustness and the Market Process

Illicit markets in Russia have both persevered and have taken on a different form from the Soviet to the post-Soviet period. It is our contention that the framework of analytical anarchism (Boettke, 2005, 2011, 2012; Boettke and Candela, 2021a) is well-suited for explanation of the illicit market transformation. The reason for adopting such a framework of analysis is not to suggest that Russia in the Soviet or post-Soviet period was completely anarchic or that it completely lacked social order. Rather, analytical anarchism provides an alternative analytical starting point for the study of *endogenous rule formation* compared to conventional institutional frameworks, particularly in the context of illicit market exchange where *de jure* enforcement of property rights by the state does not exist.

Generally, institutional analysis assumes the existence of exogenously given institutional arrangements where the governing entity is bestowed with a monopoly on the use of force. Implicit

to this framework is the presumption that given *de jure* property rights are enforced by the state, and that *de facto* expectations regard the ability to use resources align with de jure enforcement. When *de facto* property rights emerge that are inconsistent with *de jure* and intended expectations of their enforcement, this implies the emergence of a set of rules governing property rights that is endogenous to economizing action of the individuals operating within an economic system.

The analytical anarchism, on the other hand, begins at a different starting point. This theoretical framework takes neither rules as given nor assumes that monopoly enforcement of the rules exists. Rather, the framework is a study of the endogenous rule formation by individuals within a particular society where self-interested individuals compete for scarce resources under the conditions of asymmetric information. The framework does not deny existence of scarcity, competition, and conflict. On the contrary, analytical anarchism assumes participants' lack of benevolence and omniscience. And since participants are neither benevolent nor omniscience, while resources are scarce, there is a large room for competition and conflict between the rivalry parties. But since conflict and the use of force are costly, people often develop social strategies that mitigate unnecessary use of violence and aid participants in coordinating their disparate ends. These strategies include the adoption of rules of social engagement that do not presume emergence of the central authority (i.e., the state).

However unorthodox such a framing may seem, the work of Roberts (1969, 1971) and Boettke (1993) is both illustrative and complementary of our theoretical framework. The original intent of Marxian socialism were to eliminate private property in the means of production in order to replace production for exchange with production for direct use, the outcome of which is ex ante determined and controlled by a single central plan. "Our efforts to understand theoretically the operation of the Soviet economy," Roberts states, "have been hampered by both the effort to fit it

into a framework of hierarchical planning and the neglect of the of the original aspirations of Marxian socialism" (Roberts, 1969, p. 167). In order to understand the deviations in the *de facto* operation of the Soviet economy from its *de jure* design, Roberts adopted the concept of "polycentricity" from Michael Polanyi (1951) to understand the Soviet system, one in which "no one undertakes to arrange and direct a scheme of work for the organization as a whole, a polycentric system is not subject to the coordinative limitations of a hierarchy" (Roberts, 1969, p. 172). In explaining the nature of the Soviet economic system, Boettke states that production "was not for direct use, but rather was divided into two categories: production for production's sake (to maintain the illusion) and production for exchange (to sustain the population" (Boettke 1993, p. 69).

The fact that *de facto* production for exchange existed in Soviet Russia, which was illicit, and the fact that such illicit market exchange continued even after *de jure* privatization in post-Soviet Russia should have eliminated it, is why the framework of analytical anarchism is thus well-suited for the study of illicit market operations. Illicit markets, by definition, operate on either semi- or fully- illegal grounds (Boettke et. al, 2004), and actors cannot rely on state agencies to secure private property, to enforce contracts, and to punish those that deviate. This necessitates endogenous formation of institutional rules and norms to coordinate disparate ends of the illicit market participants outside the scope of the state (Boettke, 2011). These rules and arrangements will differ depending on the institutional environment actors find themselves in. Or, in other words, illicit markets are ubiquitous as the state does not have the capacity to monitor every citizen's activity and to enforce compliance with the existing rules. Such rules and arrangements that emerge to govern operations of illicit markets will differ depending on the scope of the officially prohibited activity and the ability of the state to enforce said restrictions.

To briefly illustrate application of the framework, that will be expanded upon in Section 3, think, for instance, of illicit markets in both Soviet and post-Soviet Russia. In both instances the institutional environment disfavored legal entrepreneurial market activity free of arbitrary rules and regulations. In the case of Soviet Russia, illicit markets infiltrated most aspects of Soviet life, including the bureaucratic hierarchy, implementation of the production plans, hiring of labor and other production inputs, social services, etc. Illicit markets worked to ease consumer frustration and to fill in for gaps in production. This inevitably necessitated the development of accompanying organized crime groups, that along with the social networks of family and friends coordinated actions of the market participants both inside and outside the planned economy. But, as the Soviet joke went, a state shortage of buns and a state shortage of sausage is a sandwich sold out the back window. Without an alternative supply chain, Soviet illicit markets entailed theft from official sector, and sale in the unofficial sector.

In the post-Soviet context, on the other hand, transition and necessary political compromises (Boycko et. al., 1993) failed to open economy and to alleviate burden of regulations, contributing to the emergence of regulatory state that was used by bureaucrats for private gain. The resulting low revenue and the state's inability to provide protection of private property and enforcement of contracts reinforced entrepreneurs' drive to operate outside the legal realm. This result in the spread of the organized crime groups that substituted for some of the state's functions, including protection of property and resolution of conflicting interests.

The endurance and transformation of illicit markets from "greasing the wheels" of the socialist economy in Soviet Russia to substituting some of the state's functions (Colombatto, 2003) in post-Soviet Russia demonstrates markets' resilient robustness. Robust institutions withstand even in light of relaxed assumptions of benevolence and omniscience (Boettke and Leeson, 2004).

That is, these institutions endure the hard case of self-interested actors operating under conditions of uncertainty. So that when information is costly and imperfect, robust institutions produce rational allocation of resources, and when men are self-interested knaves, robust institutions deliver socially beneficial outcomes. Hence, despite numerous obstacles and deviations from the ideal conditions, robust institutions fulfill their function of coordinating disparate plans (Boettke, & Leeson, 2004). In the case at hand, illicit markets in both historic periods were robust, as they allowed for the improvement in living conditions despite the many obstacles that actors had to overcome, including restrictions on commercial activity, bureaucracy, lack of the price system, etc.

Moreover, analytic anarchism as a theoretical framework lends itself to explaining a particular puzzle framing our paper, and raised by Timothy Frye (2017, p. 16) in the following way: "The vast majority of Russians oppose privatization, but they also prefer that factories be held in private rather than state hands. The same result largely holds in other postcommunist countries as well." What seems to be a contradiction in beliefs among Russians is actually quite rational when you take into account a unifying aspect of the *operation* of *de facto* property rights that explains the resiliency and robustness of such illicit markets across the Soviet and post-Soviet period: the *creation* of *de facto* property rights through political discretion. Such creation of property rights via political discretion also explains why they have transformed from a means to "grease the wheels" for entrepreneurs into a means to "grease the palm" for regulators. In the Soviet period, the indirect monetization of *de facto* property rights among managers of state-owned firms via illicit markets expanded the institutional scope of exchange beyond what *de jure* rules allowed, namely by evading the restrictions and regulations implemented by the state. This point is complements the findings of Heckelman and Powell (2010, p. 352), who posit an inverse

relationship between the *de jure* prevalence of economic freedom and the potential for corruption to be growth-enhancing: "If a first best solution of 'good rules' is unavailable then corruption that avoids some of the restrictions created by bad rules becomes a second best solution and an alternative path to growth." Complementing this point, our contribution here is that the *perceived* morality of such illicit markets rests on the fact that they provide a extra-legal means to evade an otherwise predatory state.

However, the very resiliency and robustness of such illicit markets, which had once been means of survival among the Soviet population, has become regarded as immoral in the post-Soviet period of economic and political transition. The reason for this turn in perception can be explained by a conflation often drawn between the *creation* of property rights and the *operation* of property rights (Alchian and Allen, 1972, p. 243). The operation of *de jure* privatization in a positive-sum manner entails a process by which goods and services are transferred from state hands to private hands. However, in order to achieve positive-sum economic results, *de facto* privatization must also entail the creation of property rights via rules rather than discretion. To the extent that discretion remains in the creation *and* allocation of property rights during privatization, rent-seeking behavior will predominate in the operation of a market economy. As Buchanan (1983, p. 78) states this point: "Rent seeking will tend to be eliminated where the donors' discretion over selection of the beneficiary is absent, even if the donor is allowed to carry out transfers. So long as there exist well-defined and widely known enforceable rules or laws that determine the identity of the potential recipients, independent of the choice of the donor, there is no profit to be gained from engaging in rent seeking." Therefore, without the rule of law in the privatization process, the operation of private property rights has mutated into a race for the creation of monopoly privileges, as has been the case in post-Soviet Russia. Both the resilient robustness *and* the perceived

immorality of illicit markets in post-Soviet Russia can be explained by the expectations that Russians had for the *de jure* creation of the political system, and the extent to which the operation of illicit markets had been regarded as evading or enabling the *de facto* predatory nature of the state across both periods.

3. Soviet and Post-Soviet Illicit Markets

3.1 Illicit Markets in Soviet Union

The Soviet Union was a shortage economy (Shleifer and Vishny, 1992), where shortages permeated through both production and consumption markets. The existence of the shortage economy could generally be attributed to three causes.

First, scant availability of basic goods and services was a result of economic calculation, or lack thereof. In absence of private property and accompanying price system, planners are not capable of efficient resource utilization. Market prices allow producers in the first place to compare input alternatives and to select the most efficient production inputs, and subsequently to evaluate effectiveness of decision based on incurred profits or losses. Hence, lacking price system to guide the decisions of firms, the Soviet economy failed to produce the demanded quantity and quality of goods according to consumer preferences.

Second, in the absence of the price system, planners had to resort to a political allocation of resources. The Soviet economic system was based on rigid top-down planning structure, where central planning agency was responsible for setting up plans for the whole of the economy. Accordingly, output plans were distributed to responsible industrial agencies, and further down the chain to specific firms. The little effect firms could exert was used in bureaucratic bargaining to reduce production output targets. The strategy was effective due to asymmetric information, and

served to reduce the risk of not meeting the plan, and hence punishment, while simultaneously increasing chances of receiving a bonus. This relationship between the planning agency (*Gosplan*) and firms, however, exacerbated the inability to satisfy consumer and producer demands by hampering the flow of information and reducing the output capacity of firms.

Perhaps more detrimental for production of goods was the prevalence of soft budget constraints (Kornai, 1986; Vahabi, 2021; Boettke and Candela, 2021b). Firms within a socialist economy are not expected to go bankrupt in case of recurring losses, given that a firms' survival is contingent upon fulfilment of output targets dictated from above, rather than satisfaction of consumer wants within a hard budget constraint (Kornai, 1992). When losses do occur, the state keeps firms afloat through subsidies and investments. The effects of soft budget constraints on the pervasive of shortages are several. On the one hand, no longer shackled by a hard budget constraint, firms' input demand soars to meet authority's output targets – often beyond quantities necessary for the actual production. On the other hand, insensitivity to losses as signals of ineffective production reduces the incentive for improvement of manufacturing processes. Cumulatively, effects of soft budget constraint led to misapplication of resources and elimination of firms' incentive to respond to consumers' demand, hence further contributing to the failure of alleviating shortages.

Third, reliance on central planning as a device of economic coordination disseminated unproductive entrepreneurship from bureaucratic agencies down the ladder to ordinary consumers, which in turn contributed to the emergence of shortages. This can be explained by the discretionary nature of *de facto* property rights that operated in response to the inability to economically calculate under socialism. From a property-rights perspective, we can usefully distinguish between cashflow rights, or the ability to exchange resources for money, and control rights, the

ability to exclude others from the use of resources. The Soviet economic system was one where control rights rested to a large degree at the management level of state-owned enterprises, but managers did not possess full cash-flow rights. In addition, at all levels of the Soviet planning bureaucracy, from the Politburo to Gosplan, the state agencies which outlined and administered central planning, set output targets, and planned prices, no single individual could legally accrue additional profit from increasing output beyond a pre-determined target to meet any excess demand by consumers of goods and services. Any additional output that was officially reported as produced and sold, in effect, was a 100% tax to the managers of the state-owned firms, the benefits of which would go the coffers of the state treasury. Since managers in the absence of *de jure* private property lacked proprietary responsibility for assets, they had an incentive to take advantage of the opportunity by appropriating firms' assets and selling assets at illicit market. Grossman (1977) goes further and notes that asset appropriation, or stealing, "is practiced by virtually everyone, takes all possible forms, and varies in scale from the trivial to the regal" (Grossman, 1977, p. 29). Moreover, any bureaucrat ordering an increase in the price of a good, so as to approach a market-clearing equilibrium, would not accrue the marginal revenue from the increased prices of such goods. Unable to legally derive a profit from the sale of output, it was in the mutual interest of the firm managers to restrict output and for bureaucrats to hold centrally set prices below market-clearing prices, which results in shortages (Shleifer and Vishny, 1992, p. 239). Firm managers and bureaucrats benefited from creating a shortage by being able to monetize their de facto control of goods and services in the form of bribes from consumers, whose valuation of such goods and services exceeded the official price ceiling (Levy, 1990; Shleifer and Vishny, 1992).

In any case, the purpose of present paper is not to advance an exhaustive explanation of the shortage economy. We have elaborated several causes of the shortage economy with one and

only one goal in mind – to illustrate specific reasons for why illicit markets emerged in the Soviet Union. For illicit market are pervasive and universal (Grossman, 1990), and their nature is contingent upon the institutional environment. In case of the Soviet economy, central planning and prohibition on private property have created a shortage economy, which rested on the discretionary nature of *de facto* property rights. Soviet citizens thus strived to remedy effects of shortage economy by resorting to illegal, illicit markets outlawed or otherwise restricted by the state to substitute for the state's failings (Katsenelinboigen, 1977; Grossman, 1983; Treml and Alexeev, 1997; Boettke et. al, 2004).

That second economy[1] was a pervasive social phenomenon could be seen from numerous studies. Most notoriously, Berkley-Duke Occasional Papers on the Second Economy in the USSR present evidence of illicit markets and their magnitude in the Soviet Union – though estimates vary across scholars. According to Rutgaizer (1992), Soviet consumers spent up to 14.5 billion rubles in the shadow economy, while the assessment of black-market trade in the Soviet economy indicates a total value of 93 billion rubles involved. In a detailed study Gaddy (1991) uncovered side incomes across regions of Soviet Union, and pointed out to a trend of a perceived increase in side incomes across professions. Most interestingly, Gaddy's (1991) data for Moscow and Leningrad suggests higher black market incomes within consumer, trade and transport industries, which supports the shortage economy hypothesis. Another piece by Alexeev and Pyle (2003) estimated the share of the unofficial economy in Soviet Russia to drop from 27 percent in 1979, to extrapolated 18 percent in 1989. Further investigations of O'Hearn (1980) and Ofer & Vinokur (1980) confer previous findings. Ofer & Vinokur (1980) estimated 15 percent of private

[1] According to Grossman (1983) production and exchange in the second economy fulfills one of the following tests, (1) being directly for private gain; (2) being in some significant respect in knowing contravention of existing law. We use black markets, second economy, illicit markets interchangeably.

consumption to be made within the bounds of the second economy. While O'Hearn (1980) assessed share of second economy in several goods and services, and found sales of petroleum, fur, and house repair services to be especially widespread – 70 to 98 percent – on the second economy market.

Henceforth, the second economy was a critical institution in Soviet economy. It emerged as a direct response to inefficiencies of the centrally planned economy in providing goods and services to consumers. And since demand for goods and services was high, the second economy flourished, despite its activities being illegal and outlawed to different degrees (Katsenelinboigen, 1977; Boettke et. al, 2004). The exchange within the second economy included a wide range of items and services. Everyday goods like diary and hygiene products in short supply could often be acquired through a bribe to shopkeepers who took the items off the shelves for private gain (Simis, 1982; Grossman, 1983; Smith, 1976). Otherwise, shortage goods could be obtained through social networks of close friends and family (Sampson, 1987). In other instances some of the agricultural produce was provided by farmers who toiled either private or collective land, and sold the proceeds privately through second economy channels (Sampson, 1987). In addition to these sources, individuals resorted to private production of desired items, as was the case with alcoholic beverages[2] (Treml, 1988), where close to 25 percent of liquor production was private (O'Hearn, 1980).

Illicit markets further encompassed services that were not provided in the necessary quantity by state authorities, or were of lower quality. Simis (1982) and Smith (1976) have documented the spread of illicit markets in education, healthcare, taxi, and even burial services, among others. As higher education was important for advancing a person's career, those parents

[2] Alcohol was such a highly demanded and versatile good, that it often became a medium of exchange that people used in bribing or transactions (Treml, 1985).

that had enough financial resources hired private tutors to prepare their children for university entrance exams. Furthermore, the centralized healthcare system was characterized by queues to more specialized doctors, absence of care towards patients, and lack of quality medicines. This prompted a demand for a private healthcare market, where consumers could purchase doctor appointments, medicine, and access to healthcare facilities. But perhaps most interestingly, the Soviet Union saw growth in illicit burial services. In the absence of private burial practices, people had to resort to illicit markets in order to purchase burial land and labor of burial services.

The second economy was not restricted to consumer goods and services, however, and was a universal social phenomenon that permeated every aspect of planning, including administrative apparatus, production, and supply of goods. The second economy found a refuge in the bureaucratic planning system too, as bribery for obtaining favors – like turning a blind eye to misallocation of collective property (Simis, 1982) – became commonplace. And so was the purchase of lucrative administrative or bureaucratic positions that promised the owners material and other benefits (Grossman, 1983).

But most peculiar of all was a resort of factories and producers to illicit markets for purchase and exchange of inputs. In addition, meeting output targets within a generally inflexible bureaucratic system often required producers to resort to illegal markets and informal negotiations between firms, particularly for the hiring of labor. As a result, a system emerged where state firms relied on *tolkachi* and *shabashniki* to meet output targets (Kramer, 1977; Shelley, 1995; Simis, 1982). *Tolkachi* fulfilled an entrepreneurial role of seeking raw materials outside legal bounds (Kramer, 1977). Common sources of inputs were generally found in the countryside or in possession of other firms. It was also the responsibility of *tolkachi* to secure transfer of inputs to a production facility in a timely fashion. *Shabashniki* had a different roles in the process of

production, in that they supplied illegal or semi-illegal labor to factories that required additional short-term workforce (Shelley, 1995). After completion of work, a brigade of *shabashniki* would move to a different project.

Overall, *tolkachi* and *shabashniki* were a part of the larger illicit markets system that greased the wheels of a centrally planned economy and alleviated some consumer needs. The most market-like elements of such system included underground firms. The underground firm ran illegally under the cover of an official state production facility. The facility provided space, and often diverted labor and inputs for the purpose of manufacturing goods that were to be sold on illicit markets for the private benefit of owners and workers involved in the process (Kramer, 1977; Shelley, 1995; Simis, 1982; Grossman, 1983).

We have thus far elaborated the reasons for the emergence of illicit markets in Soviet economy, particularly in its extent and magnitude. Discussion, however, would be left incomplete without a note on organized crime that facilitated the operation of illicit markets. Illicit markets are institutionally contingent (Grossman, 1990), and generally take a form of informal rules of cooperation[3]. But since illicit markets operate outside the scope of the state, participants of illicit economy are barred from relying on state agencies to enforce private contracts, to protect against private predation, and to ensure general compliance with informal rules of the game (Beckert and Wehinger, 2013). Within the Soviet second economy, organized crime facilitated cooperation among sellers and consumers, contributing to the establishment of trust and cooperation among second economy participants by a threat of violence that raised the cost of deviation from established norms. These organizations also facilitated (albeit limited) the growth of networks

[3] Though informal norms could of course be formalized in constitutions and legislations of informal groups, like in the instance of prison gangs.

between sellers and consumers, decreasing the impact of asymmetric information, curbing malfeasance, and assuring quality of goods and services.

That organized crime was pervasive in the operation of second economy could be indirectly seen from data on crime statistics in Soviet and post-Soviet Russia. According to Varese (2001), registered crimes in Russia increased exponentially from 1.4 million in 1985 to 2.6 million crimes per year in 1998. Homicide rates followed a similar path and increased from 9.8 per 100,000 inhabitants in 1988 to 26.5 in 1996, indicating an increase in violence and activity of organized crime groups. Frisby (1998) demonstrated comparable dynamic with overall crime increasing from 1.8 million cases in 1990 to 2.6 million cases in 1994.

Such statistics on organized crime are illustrative of the two points, which we discuss in Section 3.2. First, the *de facto* operation of property rights not only determines the nature of the second economy, but also the moral status of illicit markets, based on their ability to provide the means for individuals to evade the predatory state. Secondly, the increase in violence in the post-Soviet period is indicative of a transformation in the role of illicit markets, from a means to evade the predatory to a means to enable the predatory nature of the state.

3.2 Illicit Markets in Post-Soviet Russia

Illicit markets are universal and are contingent upon pervading institutions. In case of post-Soviet Russia, transition to a market economy was characterized by political compromises in reforms and privatization process, leading to the emergence of a regulatory regime and bureaucratic predation. Illicit markets thus changed their nature, from remedying a shortage economy in Soviet Russia, to avoiding the regulatory burden that preyed on private businesses.

The development occurred in the first place because political leadership of the country compromised with interest groups (Boycko et. al., 1993) and was able to implement only partial reforms. Per Boycko et. al. (1993), transition to a market economy requires implementation of competitive policies, equity governance, and market-based capital allocation. In Russia, however, all elements went astray. Bureaucrats resurrected trade associations and channeled resources to firms with negative value-added product, opening to foreign trade was limited, and local authorities took actions to protect incumbent firms from competition. Similarly, equity restructuring resulted in managers capturing more than anticipated shares and control over firms, hence raising fears of managers' being captured by political interests and undermining privatization. Changes in capital allocation reforms faced equal challenges, as allocation of credits and subsidies to firms and banks became completely politicized, rather than based on sound economic logic.

The privatization process was also marked by significant political compromises (Shleifer, et. al.). Local governments gained control over small-scale privatization, and in limited instances were capable of excluding outsiders from the process. Most importantly of all, however, workers and managers received significant concessions. According to Boycko et. al. (1993) "workers in enterprises being privatized received the most generous concessions of any privatization in the world. They have gotten either 25 percent of the firm for free (plus an ESOP), or 51 percent (plus an ESOP) at a discount" (Boycko et. al., 1993, p.152). On the other hand, managers received at least 5 percent ownership of firms, and were endowed with more freedom, as privatization did not impose large shareholders on firms, hence allowing managers to gain more control over privatized firms.

The resulting uncertainty over the legal definition of property rights has the following implications. Political discretion, by its very nature, constitutes a "legal" transfer of property rights intended to benefit one party that cannot occur without: (1) simultaneously confiscating resources at the expense of another party; *and* (2) empowering the allocator with the privilege of distributing such property rights. As a result, individuals will expend greater resources both to influence and to avert such transfers. Moreover, if people perceive that the legal system is becoming less impartial, they will transact outside the jurisdiction of government courts and regulatory officials (Candela, 2020).

Politicization of transition and privatization (Johnson, et. al., 1998) thus led to the government failure in protecting citizens from bureaucratic predation and in establishing independent administrative apparatus. Frye and Shleifer (1996) illustrate the predatory regulatory environment with a survey of shops in Moscow and Warsaw during the transition period. Moscow shop owners were less likely to use courts, were more likely to hire legal personnel, and were more likely to use private security and to be contacted by racketeers. Responding to questions on regulations, Moscow respondents spent more time registering business, had on average more inspections per year, and were more likely to be fined. As Frye and Shleifer state, regulations "in Russia appear to be a good deal more oppressive to business than they are in Poland. This is reflected in some measures of regulations, in greater legal vulnerability that Russian respondents feel, and in the greater burden of corruption in Moscow" (Frye and Shleifer, 1996, p. 357). Yhough oppressive and corrupt regulatory regime in Moscow does not by definition imply similar environment in other parts of the country, the widespread nature of illicit markets across the country suggests the contrary.

Reforms thus failed to establish a competitive market with low barriers of entry, minimal regulations, and market allocation of capital. Instead, interest groups frequently captured legislature and created barriers for entry for foreign and domestic firms alike, resulting in regulations and an unchecked bureaucratic system instigating unproductive entrepreneurship (Baumol, 1990; Murphy, et. al., 1991). Bureaucrats used regulations to seek private interests through bribes and favors. Naturally, in response firms sought to avoid bureaucratic predation and went "underground" (Johnson, et. al., 1997), creating an alternative version of illicit markets in post-Soviet Russia (Schneider and Enste, 2000).

The unintended consequence of the regulatory regime and bureaucratic predation in the form of flourishing illicit markets was a decline in state revenue and consequent inability of the state to provide public goods, such as the establishment of an independent administrative system capable of protecting citizens from public and private predation (Johnson, et. al., 1997; Schneider and Enste, 2000). Firms moved away from public predation in official markets to the unofficial economy free of bureaucratic controls, and firms' official incomes that could be taxed naturally declined. The incapacity of the state to credibly constrain itself diminished its capacity to raise the revenue necessary to secure the rule of law, enforce property rights, and establish independent public administration (see Boettke and Candela, 2020). So the perverse circle ensued, where firms moved to illicit markets to evade predation of bureaucrats, but the evasion itself further aggravated predation, as the state was left inept to provide public goods. And what exacerbated the circumstances further were low official incomes of bureaucrats and public officials, that, having the opportunity preyed on firms and businesses.

The widespread nature of illicit markets that emerged in post-Soviet Russia could be demonstrated with several studies. According to Johnson et. al. (1997), the share of unofficial

GDP as a percentage of total GDP increased in Russia from 12 percent in to 42 percent in 1995. Lackó (2000) found a share of unofficial economy to range from 38 percent in 1992 to 39 percent in 1996, while Alexeev (2003) calculated a share of unofficial economy in Russia to increase from 18 percent in 1989 to 46 percent in 1995. The irony of the situation must not be lost as this expansion of illicit markets is occurring during the so-called "shock therapy" of radical market reforms.

The dramatic increase in illicit market operations in post-Soviet period and an alternative of privatization *enabling* public predation have also impacted the functions of organized crime (Albini, et. al., 1995). The institutional environment of illicit markets in post-Soviet Russia predisposed firms operating within the realm of an unofficial economy to rely on protection supplied by organized crime groups. Firms were not necessarily engaging in illegal activity, nut firms had to keep their operations outside the official economy to avoid costs associated with corruption, bureaucratic predation, bribes, etc. And as a result, participants of the illicit economy evaded dealings with state authorities, including police, to protect against public predation, to enforce contracts, and to ensure general compliance with informal rules of the game (Beckert and Wehinger, 2013). Public polls supplied by Varese (2001) support the view. According to Varese (2001) 16 percent of respondents in Russia expected fair treatment from public officials, while 17 percent expected fair treatment through connections or bribes, while 67 percent of respondents did not expect fair treatment from public officials. More specifically, municipal office and police officials commanded the least trust in expected fair treatment, with 70 percent of respondents in Russia voicing their discontent with the situation (Varese, 2001).

In short, organized crime groups existed in both Soviet Russia and post-Soviet Russia. But while crime groups in earlier primarily functioned to instigate cooperation of illicit markets'

participants through limited violence and extension of social networks, their role in post-Soviet Russia took on more overarching responsibilities. The effects of bureaucratic predation led to a significant increase in the scope of the unofficial economy, and organized crime groups supplied protection, employment, conflict negotiation and other public goods to market participants, hence substituting for the failings of the newly established government.

That mafia groups were indeed prominent in post-Soviet Russia could be seen not solely from statistics on crime. Though crime and homicides did increase significantly (see Varese, 2001; Frisby, 1998), Frisby notes that by 1995 "an estimated 30,000 individuals actively participated in organized crime. Over 3000 criminal leaders directed their activity; 1011 criminal organisations had established inter-regional links and 300 had international connections" (Frisby, 1998, p.32.). And the activity of mafia extended directly into economy as "55% of the capital of the whole economy and 80% of voting shares are in the hands of criminal clans. According to businessmen themselves 30 to 50% of all entrepreneurs work for the criminal fraternity. According to analysts, mafia-like structures control 400 banks and exchanges. Finansovye izvestiya, 18 February 1997, reported that 41 000 industrial companies and over 80% of joint ventures were believed to have criminal connections" (Frisby, 1998, p.35.).

4. Moral Attitudes and the Market Experience

The previous section served to illustrate the extent of illicit markets in both Soviet and post-Soviet Russia, and the reasons for the transformation in their perceived moral status. According to various estimates, the scope of illicit markets in Soviet Russia ranged between 15 and 18 percent by the end of the regime, with the illicit markets for some goods and services like petroleum and house repairs services reaching anywhere between 70 and 98 percent of the market

(O'Hearn, 1980). Illicit markets thus encompassed essentially every aspect of a Soviet citizen's life, including exchange and production of goods and services, distribution of goods, acquisition of lucrative bureaucratic positions, hiring of labor and capital inputs for production, etc. Likewise, illicit markets proved to be indispensable for citizens of modern Russia, as illicit markets expanded up to anywhere between 38 and 46 percent by the mid-90s, thus facilitating private business activity in the shadow of the predatory bureaucracy.

Perhaps equally as important, however, illicit markets were moral since markets were generally accepted by the public, as opinion polls from both periods indicate. According to a public opinion poll from the Soviet era, Shiller et. al. (1990) illustrate that Muscovite were not essentially different from New Yorkers in their attitudes towards free markets, and in some instances even more opened to the market economy. Shiller et. al. (1990) found little evidence for the claim that Soviets were significantly more hostile to free market prices or income inequality. And if anything, Soviet respondents were more supportive of income inequality as a trade-off for overall increase in wealth, if only meager, as 55 percent of Soviet respondents and only 38 percent of American respondents favored the scenario where a million people would see their income triple, while everyone else will see a one percent increase in wealth. Moreover, Soviet respondents shared a positive attitude towards discipline and responsibility, were on average more friendly towards speculators, and were less concerned with monetary benefits when it came to exchange with family and friends. Importantly, Soviet respondents did show a prejudice towards businessmen, but as Shiller et. al. (1990) point out, Soviet citizens at the time would not have a chance to meet a businessman in an informal situation. Finally, Soviets were understandably more distrustful of the government, as 20 percent answered quite likely and 40 percent answered possible in a question

as to whether the government was likely to nationalize private enterprises with little or no compensation (Shiller et. al., 1990).

A similar public opinion poll from the Soviet era was conducted in Soviet Russia by the Public Opinion Research Center (1990) and the results were published in Rutgaizer (1992). According to the polls, illegal incomes existed due to pervasive shortages of goods and services (51 percent), loose administrative controls and record-keeping (27 percent), dishonesty of officials (23 percent), ineffective law-enforcement (18 percent), etc. And the public had the following views as to the acceptance of income from the shadow economy in the ascending order: prostitution (10 percent), cheating in commercial retail (12 percent), resale of agricultural produce (14 percent), speculation (18 percent), bribes and gifts to officials (22 percent), resale of foreign-made goods (31 percent), extra pay for scarce commodities and services (32 percent), gifts and side payments to nurses, medical doctors, and teachers in state institutions (43 percent), theft from work (52 percent), and tips (52 percent). Moreover, the following reasons were supported as root causes of economic setbacks: action by the commercial mafia (27 percent), collapse of the central planning system (22 percent), attempts by the Communist party apparats to get back to the old ways (19 percent), stop-go (inconsistent) approach to market reforms (13 percent), policy of radical reformers in power (2 percent), policy of nationalists and separatists republics (3 percent), and 14 percent answered as do not know. Finally, in answering the question of who lives a live of plenty in the USSR, respondents supported the following views (percent of total, where total exceeds 100 since multiple answers were accepted): crooks and speculators (65 percent), part and government appartchiks (45 percent), employees of co-ops (36 percent), those who emigrate from the USSR (13 percent), foreigners (8 percent), those who want to and can work well (7 percent), private entrepreneurs (6 percent).

This evidence from public opinion polls of Soviet citizens unequivocally demonstrate the widespread acceptance of illicit markets in the Soviet Union, and thus morality of illicit markets as perceived by the Russians themselves. Corruption and private gain from illicit activity were a part of the everyday life (Grossman, 1983; Treml, & Alexeev, 1997), and participation at illicit market in one or the other capacity was the norm that allowed to improve one's standards of living.

Alike attitudes permeated through early post-Soviet Russia, and this point is worth stressing for it changes a discussion as to the reasons of the failed transition to the market economy. On the one hand, it could have been that the Russian culture is inherently illiberal, and market-oriented reforms failed to assimilate due to incompatibility of liberal formal institutions and illiberal informal institutions. And in addition to incompatibility, the reformist government might have felt constrained to cater to public's perceived beliefs of income inequality and fairness.

Alternatively, and as we would like to argue based on public opinion polls, the Russians are generally opened to free markets, though the decline in the living standards during the 90s and increase in the organized crime did change the perception. Hence the transition failed since the reforms did not go far enough due to political compromises and rent-seeking, and the reforms were not compatible to liberal values of Russians. Indeed, as Shiller et. al. (1990) note:

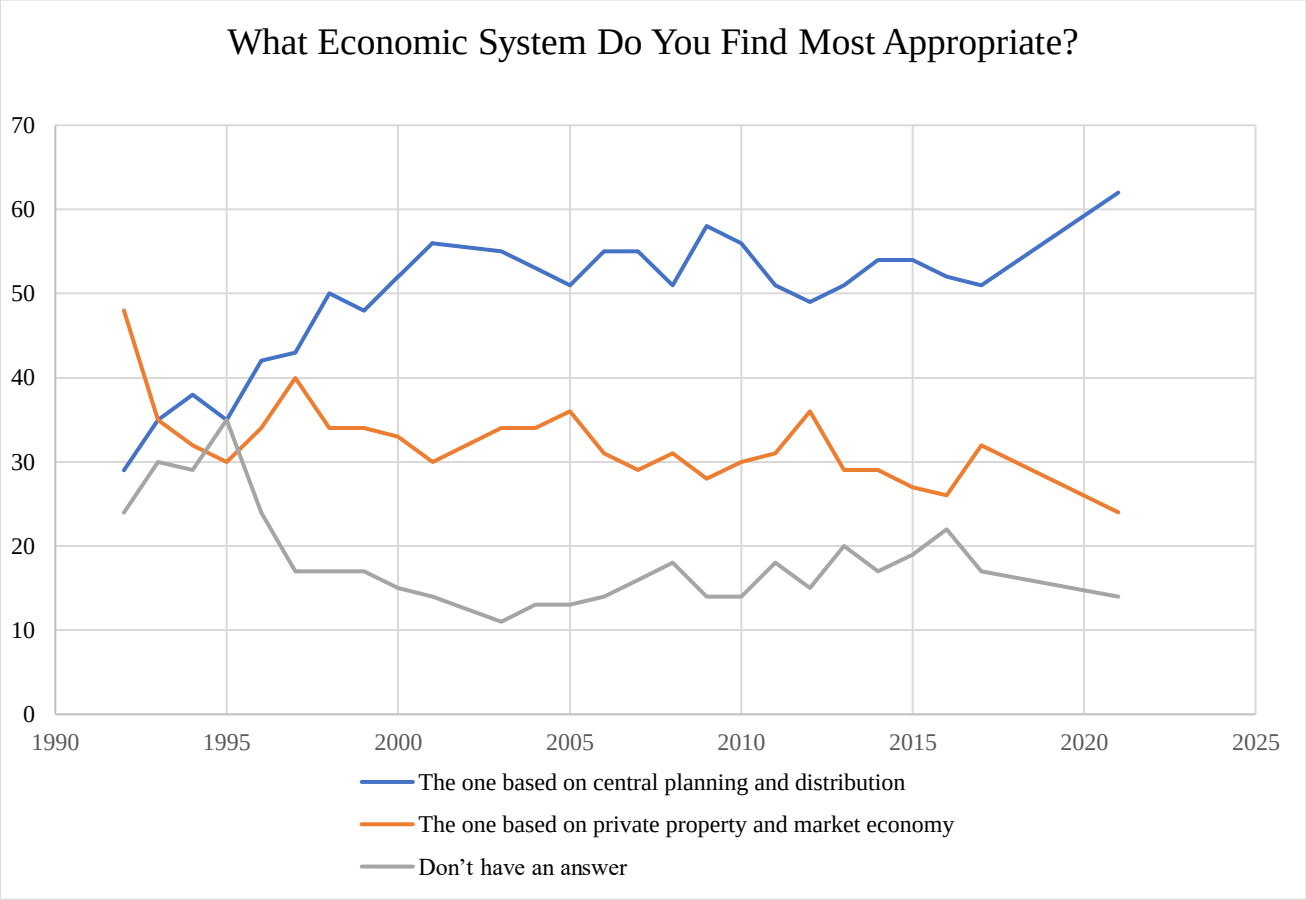
> Because the differences between the Soviet Union and the United States we found were often small or nonexistent, we feel that perhaps too much prominence has been given in discussions of the transition to a market system in the Soviet Union today to the differences between Soviets and people in market economies. The pressing and immediate problems faced in the Soviet Union today may be instead political and institutional in nature. When a country inherits an institutional and political framework that has been anti-market, it serves certain entrenched interests in that country to resist change. Thus, individuals who benefit from the present system may make public appeals to fairness, abhorrence of income inequality, and other attitudes to try to stop change (Shiller et. al., 1990, p.399).

This is significant, for according to Pejovich (2003) the ultimate success of the transition is contingent upon compatibility of informal and formal institutions in a given society. Institutions

serve as to reduce transaction costs of human interaction, for institutions coordinate expectations and disparate plans of individuals. And for coordination to occur people's beliefs must be compatible with the set of formal rules, like constitutions, rule of law, etc. (Boettke et. al, 2008). So, when a country transitions to a new economic system, reformers could theoretically attempt to affect both formal and informal institutions. But since informal rules are generally not a policy variable due to complexity of changing cultural beliefs and opinions in a short span of time, transition must resort to enacting a set of formal rules – constitutions, statues, common law precedents, and governmental regulations – that are compatible with the prevailing culture. The compatibility of informal and formal institutions will create incentive and opportunities for human interaction that are conducive to the long-run growth, as citizens' perception of the incentive structure and information transmission mechanism will contribute to productive entrepreneurship. And if institutions diverge, as was the case in Russia, the transaction costs of the transition increase, since given cultural views citizens channel their energies into unproductive entrepreneurship, like illicit markets and organized crime activity.

We have previously stated the reasons for why transition diverged from the intended design. And to support our claim that Russians saw markets as moral, we provide data on public opinion polls from several sources. According to Levada Center poll (2021), as much as 48 percent of the Russians were supportive of the market economy by 1992. However, support for a market economy has declined throughout the 1990s (see graph 1).

Graph 1. ***The Change in Russians' Acceptance of Market and Planning Institutions*.**



Source: Levada Center (2021).

Another study of young people and young adults up to 40 years old by Lyudmila Hahulina (2001) finds similar results, and in some respects even more supportive of the market institutions. According to Hahulina (2021), on average 30 percent of the respondents in 1991 favored a shock therapy and transition to market institutions, 40 percent preferred a gradual transition to market economy, 14 percent saw a transition as unnecessary, and 15 percent didn't provide an answer. The results changed in 2000, when only 16 percent of the respondents were in support of the shock therapy, but 45 percent now preferred a gradual transition, 25 percent saw the transition as unnecessary, and 14 percent didn't provide an answer. Both of the works indicate that enthusiasm for a market economy has understandably dwindled as a result of changing economic conditions

and unintended consequences in the form of active organized crime groups. Additional investigations conducted in the new millennium illustrate results in the same vein. For instance, CESSI (2007) found that, in 2007, 28 percent of Russians viewed the market economy as most effective, 41 percent preferred planning economy, and 32 percent did not care for the type of economic system[4].

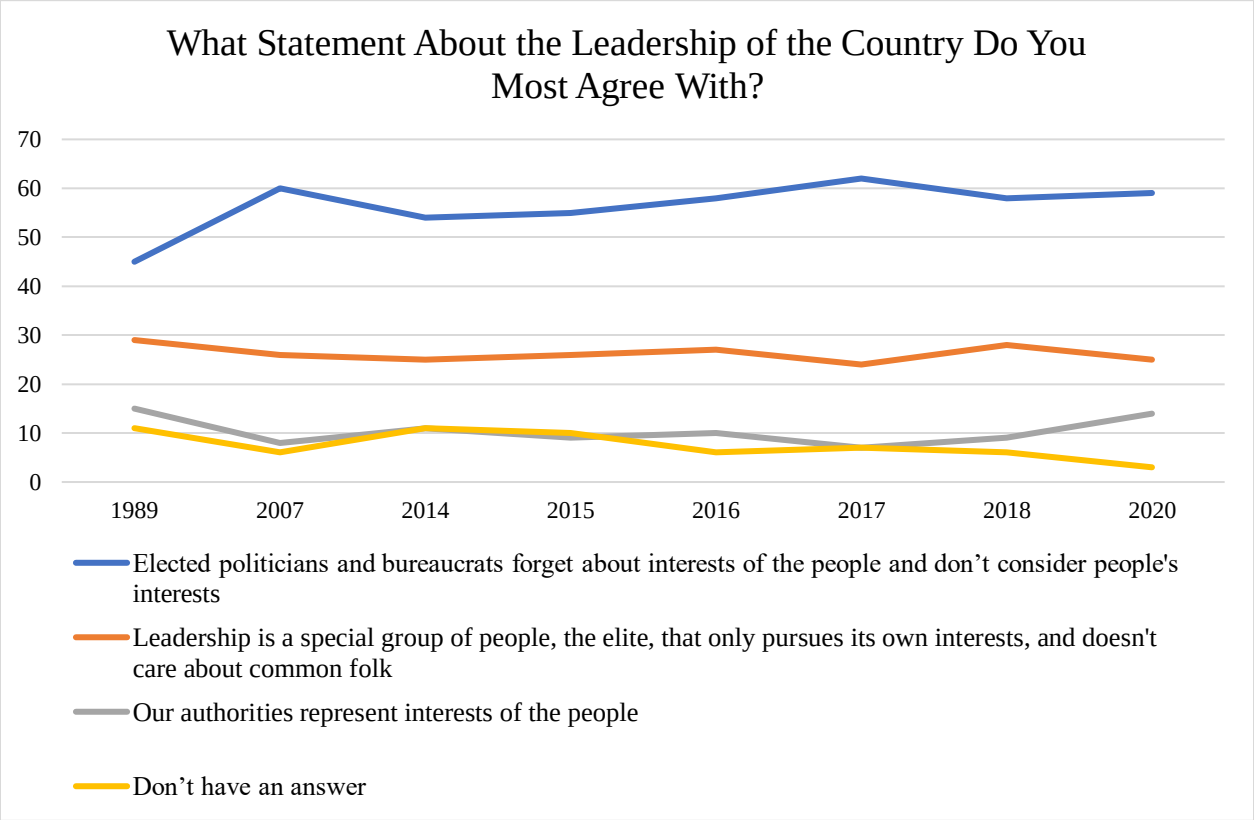
However, the interpretation that we can draw from such data, when filtered through our theoretical framework, is to suggest that these data speaks more to perception of "privatization" at the hand of Russian government, and how Russians have come to associate a market economy with cronyism. To illustrate our point, in their follow-up study 25 years after the first survey, Boycko and Shiller (2016) found no evidence to the claim that Russians are inherently illiberal or anti-democratic, and hence no significant changes to their previous results. This is also consistent with the observation by Frye (2017) that Russians favor property in private hands, but do not favor privatization. Moreover, Volkov and Kolesnikov (2018) surveyed Russians as to the views on effectiveness of firms and restrictions on private property. According to the poll, 48 percent of respondents saw private firms as most effective, with state-owned firms receiving 38 percent of support, with the rest of respondents not providing the answer. Moreover, 36 percent of individuals responded stated that state restriction on private property could not be justified. While next most selected responses of military and terrorist threats received 32 percent and 22 percent, accordingly.

Hence, Russians generally accept the morality of markets and those illicit markets that substituted legal economic activity that was forced underground by bureaucratic predation. The point could also be illustrated by the contrary disapproval of the state's interference into economic activity and attitudes towards the bureaucrats and politicians. Per Gudkov (2021) close to 60

[4] Note that CESSI's (2007) results for 2007 are almost identical to those of the Levada Center (2021) – 29 percent of support towards market institutions – for the same year.

percent of the poll respondents continuously expressed the view that elected politicians and bureaucrats disregard public interest. Near 25 percent of the respondents from 1989 to 2020 saw politicians as a special cast of people disinterested in common folk (see graph 2).

Graph 2. ***Russians' Views on the Leadership of the Country, 1989-2020.***

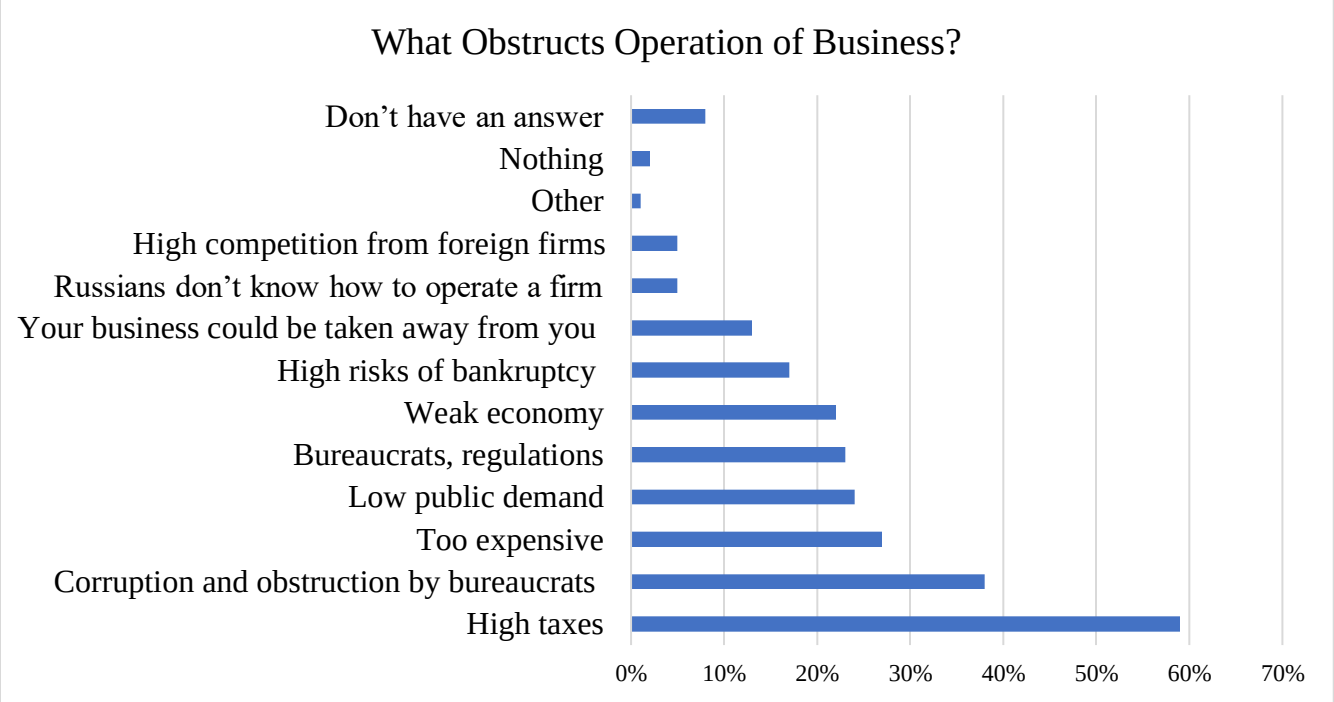


Source: Gudkov, L., (2021).

According to this graph, most of the Russians do not see politicians as taking the public interest to heart, or caring about the common people. Consistent with the findings, Volkov and Kolesnikov (2018) find that high taxes, corruption and bureaucratic obstruction, cost of doing business, low public demand, and regulations prevent successful operation of businesses (see graph 3). While according to Levada Center (2020), the 90s were characterized by high concerns with crime, corruption, weak state, inequality, and decline in the prevailing morals and values (see

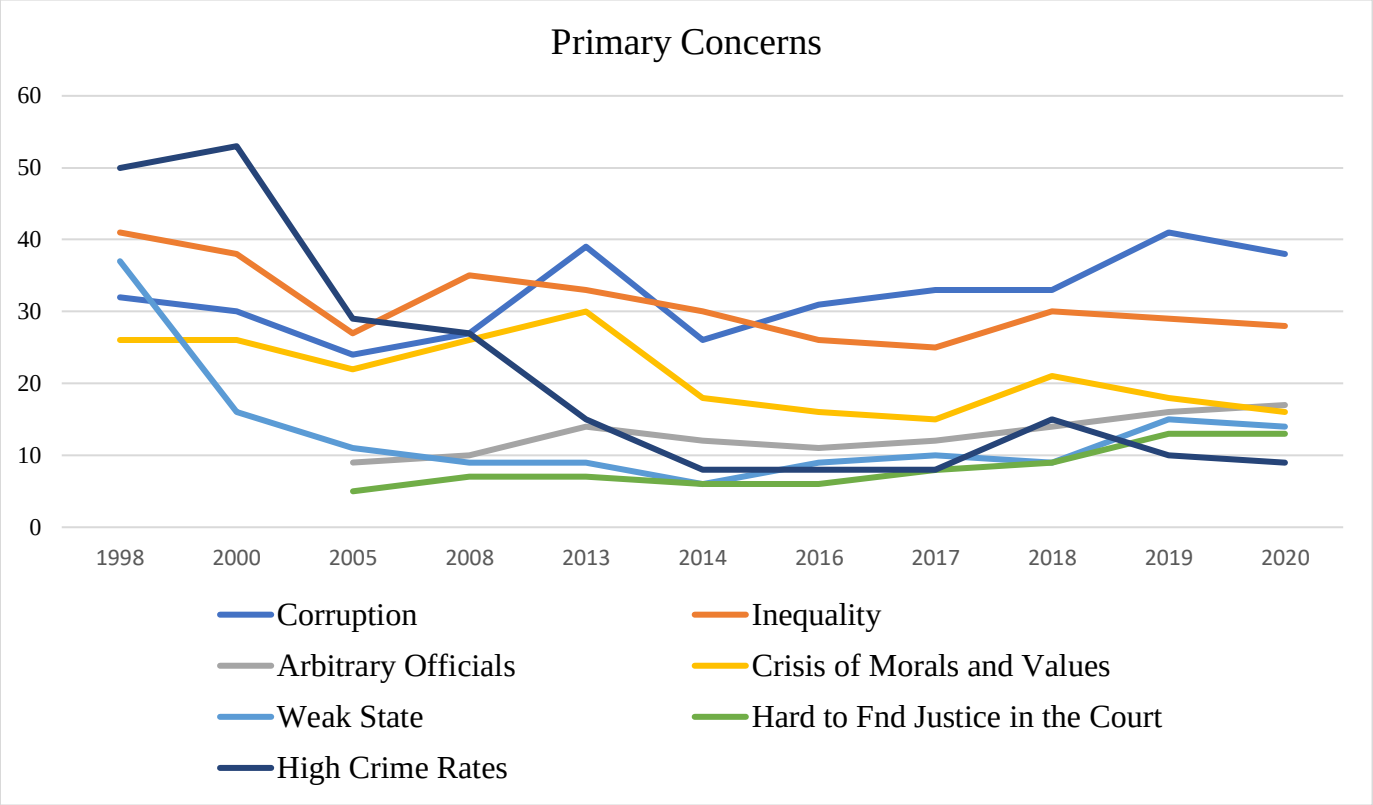
graph 4). This indicates not only dissatisfaction with the state's provision of public goods and bureaucratic predation via corruption, but also disapproval of the unintended consequences of the transition process in the form of violence.

Graph 3. ***Poll on Major Obstructions to Operation of Businesses in Russia.***



Source: Volkov, & Kolesnikov, (2018). Major obstructions to operations of businesses in Russia include high taxes, corruption, cost of doing business, low public demand, regulations, etc.

Graph 4. ***Primary Concerns of Russians, 1998-2020.***



Source: Levada Center, (2020). Primary concerns of Russians include corruption, inequality, weak state, crime, crisis of morals and values, et.

5. Conclusion

The moral legitimacy of illicit markets is institutionally contingent, requiring a context in which individuals *perceive* their interactions to be positive sum. Throughout the Soviet period, illicit markets assumed this role as means for improvement in living conditions, an opportunity for human betterment, and social cooperation where the scope for commerce had been limited by the predatory nature of the Soviet state. As have been illustrated, illicit markets were endemic in the Soviet Union, and facilitated production and distribution of goods and services, hence contributing to the increase in Russians' living standards. Though in post-Soviet Russia illicit markets allowed businesses to operate outside the realm of predatory bureaucratic apparatus, and to supply

consumer goods and services, the manifestation of illicit markets was primarily a response to the discretionary nature of "privatization," which enabled regulatory capture and cronyism. The attempt to "privatize" the Russian economy without the rule of law resulted in illicit markets becoming a means for "greasing the palm" of regulators rather than "greasing the wheels" for entrepreneurs. Moreover, the conflation between the *creation* of monopoly privileges with the operation of "privatization," and the association of illicit markets with cronyist activities has undermined not only the moral status of illicit markets, but with it the moral status of a market economy itself.

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